MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2018/2019

BME1024 – INTRODUCTORY MACROECONOMICS

(All sections / Groups)

22 OCTOBER 2018

2.30 p.m. – 4.30 p.m.

(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 2 pages with 4 questions only.
2. Attempt **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

QUESTION 1

a) Explain the differences between intermediate goods and final goods. Construct a numerical example and justify how the inclusion of value of intermediate goods in the calculation of GDP will lead to double counting problem. (15 marks)

b) Classify and explain the following cases whether as frictionally unemployed, structurally unemployed and cyclically unemployed. (10 marks)

i. Kris lost his job as assembly line worker due to recession.
ii. Jun lost his job as a translator due to the growing use of translator robot.
iii. Donald just graduated from a top business school and is currently deciding which trade company job he will accept.
iv. Larson, a graphic designer in Melaka, quit his job a month ago to look for a better graphic designing job in Kuala Lumpur city. He is still looking for a job.
v. Moon, an ice sculptor at Harbin International Ice festival lay off from her job when the festival ends.

(Total: 25 marks)

QUESTION 2

a) Consider the following data for a country A:

i. Consumption function: $C = 250 + 0.6Y$
ii. Investment function: $I = 100 + 0.2Y$
iii. $AE = C + I$
iv. $AE = Y$

What is the marginal propensity to consume (MPC) and the marginal propensity to save (MPS)? Solve equations (iii) and (iv) to determine equilibrium income in country A. (10 marks)

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b) Analyse the effect of following occurrences on the aggregate demand curve.

i. Optimistic firms increase investment spending.
ii. The federal government decreases tax rates in economy to stimulate economy.
iii. Households decide to spend a larger share of their income following latest government's announcement on tax cut.
iv. The price level increases.
v. A slowdown overseas causes foreigners buy fewer domestic goods.

(15 marks)

(Total: 25 marks)

QUESTION 3

a) Evaluate the following statement. An expansionary fiscal policy involves either an increase in government purchases or an increase in taxes. Therefore, the government experiences budget surplus and its debt declines. (10 marks)

b) If the Central Bank of Thailand wanted to expand the money supply in 2018, discuss the policy options it may use to do it in economy. (15 marks)

(Total: 25 marks)

QUESTION 4

a) Consider the situation of actual inflation is greater than expected inflation, discuss the effects on real wage and unemployment rate. (6 marks)

b) Use the following equations, show that national saving (S) is equal to domestic investment plus net foreign investment (I+ NFI) (6 marks)

$$Y = C + I + G + N_x, \quad S_{private} = Y - C - T, \quad S_{public} = T - G, \quad N_x = NFI$$

c) Briefly explain the theory of purchasing power parity and two problems of why it fails to explain exchange rates in long run. (13 marks)

(Total: 25 marks)

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